

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4422-01
Bill No.: HB 1848
Subject: Economic Development; Enterprise Zones; Taxation and Revenue.
Type: Original
Date: March 12, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	Up to \$67,740,000	Unknown	Unknown
Total Estimated Net Effect on <u>All</u> State Funds *	Up to \$67,740,000	Unknown	Unknown

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government *	\$0	\$0	\$0

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the impact on DED is unknown. DED assumes that the state would be required to honor all outstanding tax credits from prior years that may be carried forward. DED anticipates the impact of any program capping the amount of tax credits claimed to an amount less than authorized would create a considerable amount of work and would create additional costs. While credits requested or authorized might not drop, the amount claimed would have to be limited.

DED assumes the cap on credits would have the following impact in FY 2003:

- Business Facility - no impact as credits issued redeemed for FY 2003 is estimated to be below the cap set at \$6.75 million;
- Enterprise Zone - no impact as the cap of \$22.4 million is above the amount estimated to be redeemed for FY 2003;
- Wine and Grape - a savings of up to \$240,000 could be realized based on redeemed estimated amounts in FY 2003 and a limit of \$460,000;
- Historic Pres. - capped at \$36 million would save zero to \$58 million per year based on FY 2003 estimated redeemed of \$94; and
- Brownfield - capped at \$4.5 million would result in savings of zero to \$9.5 million based on FY 2003 estimated redeemed of \$14 million.

DED assumes minimal reduction in personal services/E&E needed to administer credit programs, even though they are capped. DED anticipates credits requested will remain constant but a considerable amount of additional work will be required to limit the amount of credits claimed. An unknown amount of resources would be needed to notify taxpayers of credits authorized to be claimed in any given year. DED anticipates the need for an unknown, but significant, amount of computer technology/support plus administrative/technical personnel. DED assumes there would be a zero to unknown savings due to capping these credits.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal would not fiscally impact their agency. BAP assumes that capping the claimed amount will increase total state revenue and general revenue in Fiscal Years 2003 and 2004. The impact in future years is unknown because the amounts that can be authorized are not impacted by the bill and are a potential liability.

Officials from the **Department of Insurance (INS)** assume this proposal would potentially result in increased revenue to the state. INS deferred to the Department of Economic Development for an estimate.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources (DNR)** state that the limitations of tax credits may result in reduced participation in the department's Voluntary Cleanup Program. This could result in fewer contaminated sites being remediated and brought back to productive use. DNR assumes no fiscal impact from the proposal.

Officials from the **Department of Revenue** assume this proposal would not fiscally impact their agency.

Oversight has compiled the following information regarding the redeemed credits by program from DED's Missouri Tax Credits presentation in December of 2001. Comparing the FY 2002 estimated redemption totals to the proposed limits, the amount of projected tax credits in each program to be redeemed in FY 2002 is larger than the new proposed limits. Therefore, this proposal could result in less tax credits being redeemed for these programs.

<u>Program</u>	<u>RSMo Section</u>	<u>Proposed Limits</u>	<u>Redeemed Credits (per DED)</u>
New or Expanded Business Facility tax Credit	(135.110)	\$6.75 million	FY '01 - \$6.7 million FY '02 - \$7.7 million (proj.)
Enterprise Zones	(135.230)	\$22.4 million	FY '01 - \$21.7 million FY '02 - \$22.9 million (proj.)
Wine Producers	(135.700)	\$460,000	FY '01 - \$630,000 FY '02 - \$700,000 (proj.)
Historic Structures	(253.557)	\$36 million	FY '01 - \$34 million FY '02 - \$65 million (proj)
Brownfield Redevelopment	(447.708)	\$4.5 million	FY '01 - \$4.52 million FY '02 - \$7.02 million (proj)

Oversight has reflected the anticipated savings projected by DED for FY 2003, of up to \$67,740,000 (\$0 + \$0 + \$240,000 + \$58,000,000 + 9,500,000). However, for the savings in subsequent years, Oversight has reflected an Unknown, but the savings could be larger than the \$67,740,000 reflected for FY 2003.

ASSUMPTION (continued)

RS:LR:OD (12/00)

Oversight assumes the potential costs to DED to administer this proposal would be less than the potential savings, therefore has reflected the net fiscal impact as a savings to the General Revenue fund.

This proposal may increase Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
GENERAL REVENUE			
<u>Savings</u> - Caps on several tax credit programs	Up to \$67,740,000	Unknown	Unknown
<u>Costs</u> - DED to implement legislation	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>Up to</u> <u>\$67,740,000</u>	<u>UNKNOWN</u>	<u>UNKNOWN</u>

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

<u>FISCAL IMPACT - Local Government</u>	FY 2003	FY 2004	FY 2005
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal may impact small businesses that may receive less of a tax credit since certain previously uncapped programs not have tax credit limits.

DESCRIPTION

The proposal;

- (1) Limits tax credits for new and expanding businesses to \$6.75 million annually;
- (2) Limits tax credits for new or expanded business facility's in an enterprise zone to \$22.4

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million annually;

(3) Limits tax credits for grape and wine producers to \$460,000 annually;

(4) Limits tax credits for historic structures rehabilitation to \$36 million annually; and

(5) Limits tax credits for abandoned property and redevelopment projects to \$4.5 million annually.


For each of these tax credit programs, the proposal requires the Director of the Department of Economic Development to re-apportion the annual tax credit amounts throughout the fiscal year, so that each qualifying recipient receives a tax credit of equal value.

The proposal has an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Insurance
Office of Administration - Budget and Planning
Department of Natural Resources



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